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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 001126

SIPDIS

AF/S FOR L. MUNCY
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE

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TAGS: ENRG ECON PGOV EFIN EINV ELTN ZI
SUBJECT: CALTEX HEAD ON FUEL SHORTAGES; GOZ POLICIES

Classified By: Charge d'Affaires Eric T. Schultz under Section 1.4 b/d

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Summary

¶1. (C) In an August 4 meeting with the CDA, Caltex Zimbabwe Chairman Simba Kambarami told the CDA that the Reserve Bank of Zimbabwe (RBZ) had asked the major oil companies present in Zimbabwe to provide lines of credit for fuel imports to help with fuel shortages. He said the RBZ was also advocating increased dollarization of the sector as another partial solution. In that regard, he noted that the GOZ was in the process of changing the laws to allow the use of dollars for purchases inside Zimbabwe. Caltex and the other majors planned to concentrate their business on hard currency stations, an approach Karambani acknowledged would result in a two-tier system. Regular stations would sell fuel to the general public at the subsidized price but would have no supplies. The hard currency stations would have petrol that those who had access to hard currency could purchase. End Summary.

Fuel Credit Lines

¶2. (C) Kambarami told the CDA that the Reserve Bank of Zimbabwe (RBZ) had approached the major oil companies for fuel credits. The RBZ had asked the companies to take a &long-term8 view of their operations in Zimbabwe. The oil companies were considering the request, which would establish credit lines of $7-8 million from each of the four &majors8 in country: Caltex, Total, BP, and Shell. Kambarami said Caltex, for its part, was committed to the Zimbabwean market for the long-term and was likely to agree to the credit line. He added that the companies would insist that they be allowed to pass on the cost of the credit as a price increase.

¶3. (C) Kambarami estimated Zimbabwe,s current fuel needs at $50 million a month. In that regard, he said neither the requested credit nor the proposed South African loan, of which a portion might go to finance fuel imports, would have a long-term effect on the fuel shortages. Kambarami added that he had heard the loan would have strict economic conditions attached.

A Partial Market Solution

¶4. (C) Kambarami agreed with CDA that the GOZ could solve its fuel woes by lifting price controls. However, the GOZ was committed to using price controls as a way to control inflation instead of reducing the money supply. That said, Kambarami said he had begun to detect a shift in GOZ thinking about market solutions, especially at the RBZ. The most notable change was the decision to authorize hard currency service stations. A year and a half ago, when Gideon Gono had become RBZ Governor, the central bank was totally opposed to &dollarization.8 Now it was embracing it, at least as a partial solution to fuel shortages.

¶5. (C) Kambarami said only one hard currency station had opened thus far, owned by the national gas company Noczim. Caltex was prepared to open such stations provided they could reach an acceptable agreement with the GOZ on a split of the US$1/liter revenue. The RBZ had proposed a Caltex/RBZ split of 60/40; Caltex,s counter-offer was 85/15. Kambarani said the other issue that needed to be resolved was assuring the public that it would be legal to use U.S. dollars to purchase fuel and other items. The RBZ had agreed to change the law to allow such purchases. Interestingly, they had been unable to find a post-independence law that expressly forbid the use of hard currency within Zimbabwe and were instead changing a Rhodesian-era law.

Two-Tier Fuel Distribution

¶6. (C) Kambarani said Caltex was currently breaking even in Zimbabwe despite the fuel shortages thanks to its direct

imports on behalf of clients like the Embassy and especially the mining industry, and its 12 stations throughout Zimbabwe that accept coupons purchased with hard currency. Like its sister companies, Caltex intended to expand the number of such stations in addition to establishing the proposed hard currency stations. He noted tat it was an internal company decision whether to direct fuel imports to the hard currency stations or to the regular stations that accepted Zimbabwe dollars.

¶7. (C) Kambarani acknowledged that the practical effect of such an approach would be to create two-tier system. The hard currency stations would sell petrol at roughly $1 a liter. The price in the regular stations would be Z$ 17,500 a liter, $1 at the official exchange rate but less than half that at the parallel rate. The result, Kambarani agreed, would be fuel supplies would flow to the hard currency stations rather than to the regular stations. People unable to get access to hard currency would continue to experience difficulties in getting petrol without resorting to the black market. In that regard, he noted that there was already a large and growing secondary market in Caltex coupons.

Comment

¶8. (C) Fuel policy is a case study in how the GOZ has mismanaged Zimbabwe,s economy. The GOZ has long subsidized the price of petrol, largely for ideological reasons. It is suspicious of the market and committed to a command and control economy that ostensibly &protects8 the average person from the ravages of the market place. In the process the ruling ZANU-PF party also curried favor with voters by providing cheap petrol. In better economic days, the GOZ was able to afford the luxury of this policy. It no longer can and the result is widespread fuel shortages and accompanying price increases that are actually undercutting the government and the ruling party,s popularity.

¶9. (C) However, at this point in time, the obstacles to changing course are no longer, or even principally, ideological. The policy has instead, predictably, turned into a gigantic rent-seeking exercise on the part of government insiders, the only people who have access to petrol at the subsidized price, which they then resell on the black market or even in neighboring countries. The RBZ,s proposed solution, dollarization, like all of its market-friendly ideas, is a half-measure that will solve neither the fuel crisis nor the government corruption it engenders. What it will do is further exacerbate the growing divide between government insiders and other privileged Zimbabweans, who can access hard currency, and everyone else.

SCHULTZ